

AMENDED IN SENATE APRIL 12, 2012

SENATE BILL

No. 1450

Introduced by Senator Calderon

February 24, 2012

An act to amend, *repeal, and add* Section 12640.09 of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 1450, as amended, Calderon. Mortgage guaranty insurance.

Existing law requires a mortgage guaranty insurer to limit its coverage, for the class of insurance that insures against financial loss by reason of nonpayment of principal, interest, and other sums under any evidence of indebtedness secured by a mortgage, deed of trust, or other instrument constituting a first lien or charge on a residential building or a condominium unit or buildings designed for occupancy by not more than 4 families, to no more than a net of 30% at risk of the entire indebtedness to the insured, or a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security. Existing law authorizes a mortgage guaranty insurer to extend its coverage for this class of insurance beyond the established limits provided the excess is insured by a contract of reinsurance.

This bill would, *until January 1, 2018*, delete those requirements with regard to that class of insurance.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 12640.09 of the Insurance Code is amended to read:

12640.09. (a) A mortgage guaranty insurer shall limit its coverage for the class of insurance defined in paragraph (3) of subdivision (a) of Section 12640.02 to no more than a net of 30 percent at risk of the entire indebtedness to the insured or, in lieu thereof, a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

(b) (1) A mortgage guaranty insurer shall limit its coverage for the class of insurance defined in paragraph (2) of subdivision (a) of Section 12640.02, to no more than a net of 30 percent of risk of the combined indebtedness of all existing mortgage loan amounts secured by all liens or charges on the real estate. In lieu thereof, a mortgage guaranty insurer may elect to pay the entire indebtedness to the insured and acquire title to the authorized real estate security.

(2) Notwithstanding paragraph (1), a mortgage guaranty insurer may elect to insure a portfolio of loans secured by instruments constituting junior liens on real estate, provided that the total amount at risk in any one portfolio shall not at any time exceed 20 percent of the original principal amount of mortgage loans secured by junior liens.

(3) If the borrower is required to pay the cost of insurance written under ~~paragraphs~~ *paragraph* (1) or (2), the lender shall disclose in writing to the borrower that the borrower is not a party to or a beneficiary of the mortgage guaranty insurance policy.

(4) Notwithstanding subdivision (a) and paragraph (1) of subdivision (b), if Freddie Mac or Fannie Mae increases the required amount of mortgage guaranty insurance, the commissioner may adopt regulations to increase the maximum coverage limitation of a mortgage guaranty insurer to an amount not to exceed a net of 35 percent of risk of the entire indebtedness.

(c) Notwithstanding subdivision (a) or (b), a mortgage guaranty insurer may extend its coverage for the class of insurance defined in paragraphs (2) and (3) of subdivision (a) of Section 12640.02 beyond the limits established by subdivisions (a) and (b) of this section, provided the excess is insured by a contract of reinsurance.

(d) (1) Notwithstanding any provision of law to the contrary, mortgage guaranty insurance or reinsurance may be ceded by contract, provided that the assuming insurer is either of the following:

(A) A mortgage guaranty insurer, which may be under common control with the ceding mortgage guaranty insurer, but which does not own, and is not owned by, in whole or in part, directly or indirectly, the ceding mortgage guaranty insurer.

(B) An insurer or reinsurer, that may be under common control with the ceding mortgage guaranty insurer, but that is not owned by, in whole or in part, directly or indirectly, the ceding mortgage guaranty insurer or another mortgage guaranty insurer, that writes any type or types of insurance or reinsurance and that meets the following requirements:

(i) Has paid-in capital and paid-in surplus totaling at least thirty-five million dollars (\$35,000,000).

(ii) Derives, on an annual basis, at least 50 percent of its premium income from reinsurance; or, alternatively, derives at least twenty-five million dollars (\$25,000,000) of premium income per year from reinsurance.

(iii) Establishes and maintains its share of the reserve liabilities required by Section 12640.16 if licensed in this state, or establishes, maintains, and funds in accordance with Section 922.4 or ~~Section~~ 922.5, its share of the reserve liabilities required by Section 12640.16 if not licensed in this state.

(iv) Establishes and maintains its share of an amount equal to the greater of either the reserve liabilities required by Section 12640.04 or the policyholders surplus required by Section 12640.05 in a segregated trust which meets the requirements of Section 12640.091.

(2) Nothing herein contained shall be deemed to permit the assuming insurer or reinsurer to directly write mortgage guaranty insurance.

(3) Any assuming insurer or reinsurer and the ceding mortgage guaranty insurer shall establish and maintain in the aggregate the reserves required by Sections 12640.04 and 12640.16.

(e) This section shall not apply to the California Housing Loan Insurance Fund or to any program it may develop in conjunction with any federal or federally sponsored mortgage lender or insurer.

1 (f) *This section shall remain in effect only until January 1, 2018,*
2 *and as of that date is repealed, unless a later enacted statute, that*
3 *is enacted before January 1, 2018, deletes or extends that date.*

4 SEC. 2. *Section 12640.09 is added to the Insurance Code, to*
5 *read:*

6 12640.09. (a) *A mortgage guaranty insurer shall limit its*
7 *coverage for the class of insurance defined in paragraphs (1) and*
8 *(3) of subdivision (a) of Section 12640.02 to no more than a net*
9 *of 30 percent at risk of the entire indebtedness to the insured or,*
10 *in lieu thereof, a mortgage guaranty insurer may elect to pay the*
11 *entire indebtedness to the insured and acquire title to the*
12 *authorized real estate security.*

13 (b) (1) *A mortgage guaranty insurer shall limit its coverage*
14 *for the class of insurance defined in paragraph (2) of subdivision*
15 *(a) of Section 12640.02, to no more than a net of 30 percent of*
16 *risk of the combined indebtedness of all existing mortgage loan*
17 *amounts secured by all liens or charges on the real estate. In lieu*
18 *thereof, a mortgage guaranty insurer may elect to pay the entire*
19 *indebtedness to the insured and acquire title to the authorized real*
20 *estate security.*

21 (2) *Notwithstanding paragraph (1), a mortgage guaranty insurer*
22 *may elect to insure a portfolio of loans secured by instruments*
23 *constituting junior liens on real estate, provided that the total*
24 *amount at risk in any one portfolio shall not at any time exceed*
25 *20 percent of the original principal amount of mortgage loans*
26 *secured by junior liens.*

27 (3) *If the borrower is required to pay the cost of insurance*
28 *written under paragraph (1) or (2), the lender shall disclose in*
29 *writing to the borrower that the borrower is not a party to or a*
30 *beneficiary of the mortgage guaranty insurance policy.*

31 (4) *Notwithstanding subdivision (a) and paragraph (1) of*
32 *subdivision (b), if Freddie Mac or Fannie Mae increases the*
33 *required amount of mortgage guaranty insurance, the*
34 *commissioner may adopt regulations to increase the maximum*
35 *coverage limitation of a mortgage guaranty insurer to an amount*
36 *not to exceed a net of 35 percent of risk of the entire indebtedness.*

37 (c) *Notwithstanding subdivision (a) or (b), a mortgage guaranty*
38 *insurer may extend its coverage for the class of insurance defined*
39 *in paragraphs (1), (2), and (3) of subdivision (a) of Section*
40 *12640.02 beyond the limits established by subdivisions (a) and (b)*

1 of this section, provided the excess is insured by a contract of
2 reinsurance.

3 (d) (1) Notwithstanding any provision of law to the contrary,
4 mortgage guaranty insurance or reinsurance may be ceded by
5 contract, provided that the assuming insurer is either of the
6 following:

7 (A) A mortgage guaranty insurer, which may be under common
8 control with the ceding mortgage guaranty insurer, but which does
9 not own, and is not owned by, in whole or in part, directly or
10 indirectly, the ceding mortgage guaranty insurer.

11 (B) An insurer or reinsurer, that may be under common control
12 with the ceding mortgage guaranty insurer, but that is not owned
13 by, in whole or in part, directly or indirectly, the ceding mortgage
14 guaranty insurer or another mortgage guaranty insurer, that writes
15 any type or types of insurance or reinsurance and that meets the
16 following requirements:

17 (i) Has paid-in capital and paid-in surplus totaling at least
18 thirty-five million dollars (\$35,000,000).

19 (ii) Derives, on an annual basis, at least 50 percent of its
20 premium income from reinsurance; or, alternatively, derives at
21 least twenty-five million dollars (\$25,000,000) of premium income
22 per year from reinsurance.

23 (iii) Establishes and maintains its share of the reserve liabilities
24 required by Section 12640.16 if licensed in this state, or
25 establishes, maintains, and funds in accordance with Section 922.4
26 or 922.5, its share of the reserve liabilities required by Section
27 12640.16 if not licensed in this state.

28 (iv) Establishes and maintains its share of an amount equal to
29 the greater of either the reserve liabilities required by Section
30 12640.04 or the policyholders surplus required by Section
31 12640.05 in a segregated trust which meets the requirements of
32 Section 12640.091.

33 (2) Nothing herein contained shall be deemed to permit the
34 assuming insurer or reinsurer to directly write mortgage guaranty
35 insurance.

36 (3) Any assuming insurer or reinsurer and the ceding mortgage
37 guaranty insurer shall establish and maintain in the aggregate the
38 reserves required by Sections 12640.04 and 12640.16.

- 1 ~~(e) This section shall not apply to the California Housing Loan~~
- 2 ~~Insurance Fund or to any program it may develop in conjunction~~
- 3 ~~with any federal or federally sponsored mortgage lender or insurer.~~
- 4 ~~(f) This section shall become operative on January 1, 2018.~~